

IMMEDIATE!

4 August 1982

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This CIA paper was initially prepared as a contribution to a longer paper on the gas pipeline project. It is self-contained, however, and I believe presents the best summary and assessment of information on the views and positions of the West European companies and governments on this issue. I believe you should consider sending it to the SIG members as an additional background paper.

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3 August 1982

MEMORANDUM

US Sanctions and The Soviet Gas Pipeline: The West European Perspective*

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I. West European Interests

The West Europeans have several reasons for wanting the gas export pipeline, including diversification of energy sources, pipeline-related export contracts, the relatively low price of Soviet gas, and the hope that economic ties will contribute to detente. []

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Diversification of Energy Sources. The West Europeans' prime reason for wanting the pipeline is to reduce their dependence on OPEC oil. Although that dependence has fallen substantially since 1973, Western Europe still imports more than half of its total energy requirements, and the bulk of those imports come from OPEC. Soviet gas, by contrast, would cover only about 3 percent of total energy needs once the pipeline is completed. Moreover, the West Europeans regard the USSR as a more reliable supplier than some OPEC countries. Given the absence of sufficient alternative gas supplies during the 1980s, they feel strongly that the pipeline will enhance their energy security rather than detract from it. They also believe that they could cope reasonably well with even a total cutoff of Soviet gas deliveries, through a combination of conservation, fuel-switching, temporary increases in domestic gas production, and drawdown of gas stocks. []

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Although projections of West European demand for gas have been cut sharply over the last few years, consumption still is expected to increase by at least one-sixth by 1990, or 35-40 billion m³ annually -- while the new pipeline can deliver only about 29 billion m³. Moreover, domestic production -- mostly in the Netherlands -- is expected to begin a steep decline within a few years. Should gas consumption fall well below expectations later in the decade the West Europeans could respond by temporarily reducing domestic production. Any surplus likely would disappear within a few years, as Western Europe now appears to be facing a gas shortfall in the 1990s. []

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* This memorandum was prepared by [] the Office of European Analysis, CIA, as a contribution to a forthcoming Intelligence Assessment on the pipeline. []

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Employment. The West Europeans prize the jobs provided by pipeline-related export contracts. While the actual number of jobs involved is rather low -- perhaps several tens of thousands total for the four countries involved -- they tend to be concentrated in depressed industries and depressed regions. Moreover, unemployment is at or near post-depression records in most of these countries, making any jobs-related issue a sensitive matter. [REDACTED]

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Prices. Soviet gas also looks attractive to the West Europeans because it is relatively cheap, in comparison either with OPEC oil or with gas from other potential suppliers such as Norway or Algeria. [REDACTED]

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Detente. Finally, the West Europeans regard trade with the Soviet Union as a stabilizing element in East-West relations and consequently as a factor enhancing their national security. They have been unwilling to give up detente in Europe because of Soviet expansionism in other parts of the world, and they do not appear to give the United States much credit for shouldering the burden of protecting their interests in other areas, especially the Middle East. [REDACTED]

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II. The West European Companies and Their Views

The four West European companies at the center of the storm -- those supplying compressor station equipment for the pipeline -- have all been put in a difficult position by the extended US sanctions. They need the sales and jobs offered by the Soviet contracts but they also have important dependencies on the United States. [REDACTED]

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[REDACTED] In the absence of government intervention most of the firms probably would obey the sanctions [REDACTED]

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III. West European Government Positions

The four West European governments reacted to the sanctions extension with varying degrees of surprise and anger. They question the

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extraterritorial and retroactive nature of the sanctions, which are viewed as infringing on West European sovereignty. Other common themes are that the sanctions are inappropriate and will not affect Soviet behavior, that contracts must be honored, and that the pipeline will be built.

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France. Among the West European leaders, President Mitterrand has been the most outspoken in declaring that France will not engage in economic warfare against the Soviets; he believes that acquiescing in the new US sanctions would be a move in that direction. Paris is convinced that the US claims of extraterritoriality and retroactivity are weak. The French also insist that contracts already concluded must be carried out.

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West Germany. Government officials have stated that Bonn cannot allow the US sanctions to force West German firms to break contracts.

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West German leaders were shocked and dismayed by the sanctions extension, which they regard as a completely unacceptable intrusion on West European sovereignty. They are adamant that the pipeline will be completed and have expressed approval of France's decision to produce the rotors as scheduled. Because of the traditional West German respect for the sanctity of contracts, they are particularly upset at the retroactive aspect of the sanctions.

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Bonn officials are worried about the impact on US-West European relations and thus have downplayed the sanctions issue in public. For example, Economics Minister Lambsdorff recently characterized it as nothing more than a family dispute. In private they are more outspoken.

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Italy. After some hesitation, Rome finally joined its European partners in condemning the US action. We believe that partisan differences within the Spadolini coalition on the wisdom of buying more Soviet gas and subsidizing pipeline contracts account for the initial hesitation and the persistent fuzziness of Italian positions. [REDACTED]

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[REDACTED] Given domestic political constraints, Italian officials probably will try to maintain an ambiguous position as long as possible. If Rome is forced to take a clear-cut stand, we believe the Government will follow in the French and British footsteps. However, Rome probably will not soon end the "pause for reflection" on negotiations with the Soviets on natural gas purchases. [REDACTED]

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United Kingdom. London strongly opposes what it sees as questionable extraterritorial and retroactive application of US law. Prime Minister Thatcher has described the US decision as "wrong and ultimately harmful to US interests." The government has said that it will not accept the extension of US jurisdiction and will use whatever countermeasures are available including trade restrictions on US firms. It has activated existing legislation that directly allows it to block applicability of US trade regulations in Britain, and on 2 August London announced that it would order firms in Britain -- including three subsidiaries of US firms -- to fulfill their contracts in direct contravention of the sanctions. [REDACTED]

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